

**WATER/ABJ/TKM:jrb****PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4443****December 4, 2003****R E S O L U T I O N**

**(RES. W-4443), KENWOOD VILLAGE WATER COMPANY  
(KVWC). ORDER AUTHORIZING A GENERAL RATE  
INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE  
OF \$42,240 OR 22.6% IN 2003.**

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**SUMMARY**

By Draft Advice Letter, filed on February 19, 2003, KVWC seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test year 2003, this resolution grants an increase in gross annual revenues of \$42,240 or 22.6%, which is estimated to provide a rate of return on rate base of 12.65%.

**BACKGROUND**

KVWC is owned by James Downey and Kathleen Downey, as part of Altos Sonoma Corporation. KVWC serves approximately 295-metered customers in the unincorporated area known as Kenwood Village, approximately eight miles southeast of Santa Rosa, Sonoma County. The service territory is primarily residential with a limited commercial area along State Highway 12.

KVWC has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 22.5% or \$42,405, for Test Year 2003. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return on an increased rate base. KVWC's request shows gross revenues of \$188,857 at present rates increasing by 22.5% (or \$42,405) to \$231,262 at proposed rates. KVWC is requesting a rate of return on rate base of 12.75%.

KVWC's current rates became effective on November 21, 2002 pursuant to Resolution (Res.) W-4327, which authorized a one time surcharge to recover Department of Health Services fees. KVWC's last general rate increase was granted pursuant to Res. W-4166, dated September 2, 1999, which authorized an increase of \$34,235 or 34.9%. KVWC also has a State Drinking Water Bond Act (SDWBA) loan.

## **DISCUSSION**

The Water Division (Division) made an independent analysis of KVWC's summary of earnings and issued its report in August, 2003. Appendix A shows KVWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in KVWC's and the Branch's estimates in operating revenues, expenses, and rate base. KVWC was informed of the Branch's differing views of revenues, expenses and rate base and agrees with the Branch's findings.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and Class D utilities. Thus, two methods are available for Staff to utilize in the ratemaking process: Return on Rate Base (net investment) and Operating Ratio. Staff is required to calculate the revenue requirement utilizing both the rate of return method and the operating ratio method. Policy dictates that Staff will recommend the method that produces the higher revenues. Comparison of the revenue requirement using both methods indicates that the return on rate base method produces a higher revenue requirement. In keeping with policy, staff used the return on rate base method for determining the revenue requirement.

KVWC's draft advice letter requested rates that would produce a return on rate base of 12.75%. The summary of earnings in Appendix A shows a rate of return of 12.65% at adopted rates. This rate of return is the upper limit of the rate of return range for Class C water utilities recommended by the Division's Audit and Compliance Branch. The upper limit was recommended because KVWC is a very well operated utility.

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the Department of Health Services, the utility currently meets all applicable water

quality standards. KVWC's tariff sheets have been reviewed by Staff and a new tariff Schedule No. 4 has been added as requested by KVWC.

KVWC is proposing to implement a Peak Demand Pressure System to provide peak demand flows while maintaining system pressure at a minimum of approximately 55 psi for an estimated capital expense of \$25,600. The utility also proposes to eliminate a major dead-end on Randolph Avenue with a Brown-Randolph Circulation Main extension at an estimated capital expense of \$65,000. This will increase pressure and fire flow. In its investigation, the Division determined both of these projects are prudent system improvements and therefore recommends KVWC be allowed to file advice letters for rate base offsets to recover reasonable costs associated with the projects, after they have been completed and in service.

KVWC is considered a Class C water company because it is part of Altos Sonoma Corporation, which also includes Penngrove Water Company. Decision 92-03-093 allows Class C utilities to recover up to 65% of fixed costs in their readiness to serve charge. Therefore the rates shown in the service charge rates shown in Appendix B recover 65% of the utility's fixed cost. KVWC's current rate structure consists of three schedules: Schedule No. 1, Metered Service, Schedule No.2, Cost to Serve Agreement to serve the Kenwood Inn, and the new Schedule No.4, Private Fire Protection Service. The new rate schedules can be found in Appendix B. A bill comparison can be found in Appendix C. At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer with a 5/8 X 3/4 inch meter using 2100 cubic feet of water will increase from \$50.08 to \$63.42 per month. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

### **NOTICE AND PUBLIC MEETING**

A notice of the proposed rate was mailed to each customer on June 1, 2003. The Division received three letters protesting the amount of the rate increase. The Division has not received any complaints in last twelve months.

A public meeting was held on Tuesday, June 17, 2003 at 7pm at the Kenwood Fire Station located at Randolph Street and Highway 12, Kenwood Village, CA. Twelve customers attended the meeting. The Commission representative explained the rate setting procedures and the KVWC representatives explained the reasons for the proposed increase and system improvements. Five customers

complained about the magnitude of the requested increase but were generally satisfied with the service and system improvements.

**FINDINGS**

1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Staff's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
5. KVWC's system meets G.O. 103 pressure requirements.
6. KVWC should be allowed to file advice letters requesting rate base offsets to recover reasonable costs associated with the implementation of a Peak Demand Pressure System and the proposed Brown-Randolph Streets Circulation Main extension once the projects are complete and in service.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Kenwood Village Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, and concurrently cancel its presently effective rate Schedule No. 1, Metered Service, Schedule No. 2, Cost to Serve Agreement, and to file a new Schedule No. 4 Private Fire Protection Service. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Kenwood Village Water Company may increase its annual revenues by \$42,240 or 22.6%, based on reasonable rates for 2003.

3. Kenwood Village Water Company may file advice letters requesting rate base offsets to recover reasonable costs associated with the implementation of a Peak Demand Pressure System and the proposed Brown-Randolph Circulation Main extension once the projects are complete and in service.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 4, 2003; the following Commissioners voting favorably thereon:

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WILLIAM AHERN  
Executive Director

**APPENDIX A**

**KEWOOD VILLAGE WATER COMPANY**

**SUMMARY OF EARNINGS**

Test Year 2003

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Requested Rates	
<b><u>Operating Revenue</u></b>					
Metered Rates	\$ 188,857	\$ 231,262	\$ 186,611	\$ 233,614	\$ 228,851
Flat Rates	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$188,857	\$231,262	\$186,611	\$233,614	\$228,851
<b><u>Operating Expenses</u></b>					
Purchased Water	6,412	6,412	6,412	6,412	6,412
Power	15,096	15,096	20,460	20,460	20,460
Other Volume Related	483	483	506	506	506
Employee Labor	10,314	10,314	10,229	10,229	10,229
Materials	4,951	4,951	3,952	3,952	3,952
Contract Work	13,831	13,831	13,281	13,281	13,281
Transportation Exp.	1,306	1,306	1,275	1,275	1,275
Other Plant Maintenance	505	505	498	498	498
Office Salaries	9,391	9,391	9,117	9,117	9,117
Management Salaries	35,892	35,892	32,737	32,737	32,737
Employee Benefits	14,047	14,047	14,047	14,047	14,047
Office Services & Rental	2,220	2,220	2,442	2,442	2,442
Office Suppl. & Exp.	4,623	4,623	4,418	4,418	4,418
Professional Services	3,183	3,183	3,178	3,178	3,178
Insurance	5,116	5,116	6,197	6,197	6,197
Uncollectibles	240	240	240	240	240
General Expenses	4,151	4,151	1,272	1,272	1,272
Subtotal	\$131,761	\$131,761	\$130,261	\$130,261	\$130,261
Depreciation Expense	\$10,269	\$10,269	\$10,269	\$10,269	\$10,269
Property Taxes	2,573	2,573	2,573	2,573	2,573
Payroll Taxes	5,037	5,037	4,768	4,768	4,768
State Income Tax	3,467	7,215	3,425	7,580	7,159
Federal Income Tax	13,943	29,018	13,773	30,484	28,790
Total Deductions	\$167,050	\$185,873	\$165,069	\$185,935	\$183,820
Net Revenue	\$21,807	\$45,389	\$21,542	\$47,679	\$45,031
<b><u>Rate Base</u></b>					
Average Plant	579,905	579,905	579,905	579,905	579,905
Avr. Accum. Deprec.	132,648	132,648	132,648	132,648	132,648
Net Plant	447,257	447,257	447,257	447,257	447,257
Add: Materials	4,200	4,200	4,200	4,200	4,200
Working Cash	10,198	10,198	10,198	10,198	10,198
Less: Contributions	105,664	105,664	105,664	105,664	105,664
Advances	0	0	0	0	0
Rate Base	\$355,991	\$355,991	\$355,991	\$355,991	\$355,991
Rate of Return	6.13%	12.75%	6.05%	13.39%	12.65%

**APPENDIX B**  
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**KENWOOD VILLAGE WATER COMPANY**

**Schedule No. 1**

**METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The unincorporated area known as Kenwood Village, immediately north of Kenwood, Sonoma County.

**RATES**

		<u>Per Meter</u> <u>Per Month</u>		<u>SDWBA Surcharge</u> <u>Per Meter Per Month</u>
Quantity Rate				
	All water used per 100 cu. ft.	\$1.64	(I)	
Service Charge:				
For	5/8 x 3/4-inch meter	\$29.00	(I)	\$10.22
For	3/4-inch meter	\$43.50		\$15.33
For	1-inch meter	\$58.00		\$25.55
For	1-1/2-inch meter	\$87.00		\$51.09
For	2-inch meter	\$116.00		\$81.75
For	3-inch meter	\$435.00		\$153.28
For	4-inch meter	\$725.00	(I)	\$255.46

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. The Safe Drinking Water Bond Act (SDWBA) surcharge is in addition to the water bill. This surcharge must be identified on each bill. The surcharge is specifically for repayment of the California DWR SDWBA loan authorized by Resolution F-636.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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**KENWOOD VILLAGE WATER COMPANY**

**Schedule No. 2**

**COST TO SERVE AGREEMENT**

**APPLICABILITY**

Kenwood Inn

**TERRITORY**

10400 Sonoma Highway, Kenwood, CA 95452, Sonoma County.

**RATES**

	<u>Per Service</u> <u>Per Month</u>	
Quantity Rate:		
All water used per 100 cu.ft.	\$2.51	(I)
Service Charge:		
For 2-inch meter	\$116.00	(I)

**SPECIAL CONDITION**

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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**KENWOOD VILLAGE WATER COMPANY**

**Schedule No. 4**

**PRIVATE FIRE PROTECTION SERVICE**

**APPLICABILITY**

Applicable to all metered water service furnished to privately owned fire protection services.

**TERRITORY**

The unincorporated area known as Kenwood Village, immediately north of Kenwood, Sonoma County.

**RATES**

	<u>Per Service</u> <u>Per Month</u>
For each inch of diameter	\$1.70

**SPECIAL CONDITIONS**

1. The fire protection service connection shall be installed by the utility with the cost thereof paid by the applicant, not subject to refund.
2. A service main from the nearest main of adequate capacity shall be installed by the utility and the cost paid by the applicant, not subject to refund.
3. Service is for private fire protection systems to which no connections other than fire protection purposes are allowed and are maintained to the satisfaction of the utility. The utility may install standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water, and the cost paid by the applicant.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.
5. Any unauthorized use of water, other than for fire extinguishing purposes, shall be charged for at the regular established rates as set forth under Schedule No. 1 and/or may be the grounds for the immediate disconnection of the service without liability to the company.
6. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

Resolution W-4443  
KVWC/DRAFT AL/ABJ/TKM:jrb

**DRAFT**

December 4, 2003

**APPENDIX C**

**KENWOOD VILLAGE WATER COMPANY**

**COMPARISON OF RATES**

A comparison of the present and Branch's recommended rates is shown below:

Comparison of average monthly customer bill at present and authorized rates for a 5/8 x 3/4-inch meter service using 2100 cubic feet of water:

Per Meter Per Month			
Present Rates	Recommended Rates	Increase	
		Amount	Percent
\$50.08	\$63.42	\$13.34	26.64%

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**KENWOOD VILLAGE WATER COMPANY**

**ADOPTED QUANTITIES**

**Test Year 2003**

Expenses:

1. Purchased power (Electric)	
Vendor	Pacific Gas & Electric
Schedules	A-1
Effective Date	4/1/2003
Schedules	A-10
Effective Date	4/1/2003
Total Cost (\$)	\$20,460
2. Purchased water	\$6,412
3. Insurance Expenses	
Property	
Liability	
Automobile	
Total Cost	\$6,197
4. Ad Valorem Taxes	\$2,452
5. Water Testing	\$2,685

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**KENWOOD VILLAGE WATER COMPANY**

**ADOPTED QUANTITIES**

**Test Year 2003**

6. Payroll Taxes \$4,768

7. Number of Service Connections:

Metered Rate

5/8 x 3/4-inch service	283
3/4-inch service	0
1-inch service	5
1 1/2 -inch service	0
2-inch service	6

Cost To Serve	1
Total	<hr/> 295

8. Water Sales, CCF (Sch. No.1)	72,315
Water Sales, CCF (Sch. No.2)	2,025

**APPENDIX D**  
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**KENWOOD VILLAGE WATER COMPANY**

**ADOPTED QUANTITIES**

**Test Year 2003**

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$228,851	\$228,851
2.	O & M Expenses	\$130,261	\$130,261
3.	Taxes Other Than Income	\$7,341	\$7,341
4.	Depreciation	\$10,269	\$10,269
5.	Taxable Income for State Tax	\$80,980	
6.	State Tax	\$7,159	
7.	Taxable Income for FIT		\$73,821
8.	Federal Income Tax		\$28,790
9.	Total Income Tax		\$35,949
	California Corporate Franchise Rate	8.84%	
	Federal Income Tax Rate	39%	

(END OF APPENDIX D)